

Kymin
Financial Planners

GUIDE TO

INCOME PROTECTION

REPLACING YOUR INCOME IF YOU COULDN'T
WORK DUE TO INCAPACITY CAUSED BY
ILLNESS OR INJURY





GUIDE TO INCOME PROTECTION

Replacing your income if you couldn't work due to incapacity caused by illness or injury

No one likes to think that something bad will happen to them, but if you couldn't work due to a serious illness, how would you manage financially? Could you survive on savings or sick pay from work? If not, you may need some other way to keep paying the bills – and you might want to consider income protection insurance. Currently, 10.8 million UK households are at risk of their income falling by at least a third if the main earner stopped working due to ill health^[1].

You might think this may not happen to you (and, of course, we hope it doesn't), but it's important to recognise that no one is immune to the risk of illness and accidents.

Long-term absence

Whether or not you have children or other dependants, if illness would mean you couldn't pay the bills, you should consider

income protection insurance; with 131 million days lost to sickness absence every year^[2], the reality is that it's not just the odd day off that could impact on you – a long-term absence could be a real possibility. You're also most likely to require it if you're employed or self-employed and you don't have a sick pay arrangement to fall back on.

Providing monthly payments

Income protection insurance is a long-term insurance policy that provides a monthly payment if you can't work because you're ill or injured, and typically pays out until you can start working again, or until you retire, die or the end of the policy term – whichever is sooner.

Unable to work

■ **It replaces part of your income** if you can't work because you become ill or disabled

- **It pays out until you can start working again**, or until you retire, die or the end of the policy term – whichever is sooner
- **There's a waiting period before the payments start**, so you generally set payments to start after your sick pay ends, or after any other insurance stops covering you. The longer you wait, the lower the monthly payments
- **It covers most illnesses that leave you unable to work**, either in the short or long term (depending on the type of policy and its definition of incapacity)
- **You can claim as many times as you need to** while the policy lasts

Employment Support Allowance

You can get financial and work-related support through Employment and Support Allowance (ESA)^[3]. You'll normally get the assessment rate for 13 weeks after your claim. This will be:

- Up to £57.90 a week if you're aged under 25
- Up to £73.10 a week if you're aged 25 or over

After that, if you're entitled to ESA, you'll be placed in one of two groups and will receive:

- Up to £102.15 a week if you're in the work-related activity group
- Up to £109.30 a week if you're in the support group

If you're in the support group and on income-related ESA, you're also entitled to the Enhanced Disability Premium at £15.75 a week.

Wide range of illnesses

How much you pay each month will depend on the policy and your circumstances, and the cost of a policy will vary based on a number of factors, including:

- Your age
- Whether you smoke or have previously smoked
- Your health (your current health, your weight, your family medical history)
- Your occupation
- The percentage of income you'd like to replace

Protection awareness

Worryingly, only four in ten have any awareness of how to protect their income should they become unable to work due to health reasons, and few have any protection in place.

As well as underestimating their chances of being unable to work because of medical reasons, people also believe that if it does happen, it will occur later. Just under half believe that those aged between 45 and 54 are at highest risk when, in reality, the likelihood increases from the age of 40 to almost one in five, and by 55, as many as 28% can no longer work.

Maintaining a current lifestyle

Looking at the impact on their finances, 44% of Britons anticipate their income being cut by up to half if they became unable to work due to disability, and only 15% say they could maintain their current lifestyle with this reduction.

State benefits are considered to be the main source of alternative income, though only a fifth think they would be eligible for support if their household income dropped by 30%.

Employers not offering income protection

Interestingly, payments by insurers are thought to play a minor role, with 70% of respondents saying their employers didn't offer income protection, and three quarters having no such cover.

In reality, however, figures show that 16% of the working age population in the UK suffer a disability that prevents them from working, and around 300,000 people a year fall out of work and into the welfare system because of health-related issues^[4].

ARE YOUR BASIC DAY-TO-DAY LIVING COSTS COVERED?

Could you continue to cover your basic day-to-day living costs, household bills, rent or mortgage repayments if you unexpectedly suffered an illness or had an accident that prevented you from working? Income protection is generally cheaper than most people think, and in the majority of cases, some cover is better than none at all. If you would like to review your current situation and ensure you're fully covered, please contact us for further information.

Source:

[1] *ABI Welfare Reform for the 21st Century*.

[2] *ONS – Sickness Absence in the Labour Market, February 2014*.

[3] www.gov.uk/employment-support-allowance/what-youll-get

[4] www.papworthtrust.org.uk – 16% of adults at working age and 43% over State Pension age. Four out of five disabled people acquire their disability during their lives – www.gov.uk/government/news/a-million-workers-off-sick-for-more-than-a-month

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INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

THE MONTHLY BENEFIT MAY AFFECT YOUR CLAIM TO SOME MEANS TESTED BENEFITS.

THE MONTHLY BENEFIT UNDER SUCH A PLAN MAY AFFECT A CLAIM TO BENEFITS PAID UNDER OTHER INCOME PROTECTION POLICIES.

SHOULD YOU CONSIDER INCOME PROTECTION INSURANCE?

With income protection insurance, everything depends on getting the right policy, and it doesn't matter whether or not you have children or other dependants – if illness would mean you couldn't pay the bills, you should consider income protection insurance. For more information or to discuss your requirements, please contact us today – we look forward to hearing from you.

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